



Igowole emerging urban centre

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RURAL-URBAN COMPLEMENTARITIES FOR THE REDUCTION OF POVERTY (RUCROP)



Identifying the Contribution of Savings and Credit Facilities

Proceedings of the RUCROP Stakeholders' Workshop Held on August 20th
2012 at VETA Mikumi, Morogoro, Tanzania

Edited by
Evelyn Lazaro, and
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members in home areas to help each other through remittances (both in cash and kind).

The EUC offers a relatively wide range of financial services than hinterlands. These services are readily available for natives and migrants who settle at the EUC. However, these opportunities are not fully utilized by those from the hinterlands where such services are less developed. To source such services from the EUC, they have to incur travel and other transaction costs thereby rendering the credit use less profitable.

Igowole Emerging Urban Centre

Makindara, J. R., Larsen, M.N., Birch-Thomsen, T., Kilima, F.T., Mshote, E. and Msese, L.R.

Characterization of Igowole EUC and Tea Value Chain

Igowole ward is located in Igowole Division, Mufindi District in Iringa Region. Igowole was declared a township in 2006. The development of Igowole as a township is dated back in 1940s when the local Chief of the area moved the traditional court from Kasanga to Igowole. Igowole as a township consists of two villages namely Ibatu and Kisasa and ten sub-villages namely Mhamati, Mhemi, Pasosi, Fwagi, Kitonga, Mahaga, Ihanga, Ligu, Kafufu and Kitamvanga. The people who are living in Igowole own tea farms which are located 4-30 km away in other villages of Kasanga, Luhanga, Ihomasa and Ikwega. Igowole population based on 2002 census is 6,214 and comprises of 1,599 households. However, 2007/08 estimates shows that the population has grown up to 6,531. Associated with this development, the urban centre is being consolidated and becoming increasingly densely populated. The housing and business areas have been expanding, notably on the fringes towards Kasanga, where a new business/shopping area is under construction. The majority of people living in Igowole are *Wahhehe* who are the original inhabitants followed by *Wabena* from Njombe and *Wakinga* from Makete.

Administratively, Igowole Division is headed by a Divisional Secretary while the Wards are administered by Ward Executive Officers (WEO). Other officials in the wards are Ward Agricultural and Extension Officers (WAEEO) and Ward Community Development Officers (CDOs). Social services available in Igowole include electricity (since 1990),

two secondary schools, piped water one health centre, churches and one mosque. Other services available include police station, telecommunication, and a market place which was constructed in 2000.

Igowole financial services include SACCOs which act as a bank to most of the community members and mobile money transfer services (*m-pesa*, *tigo-pesa* and *airtel money*) are also available. Some members in Igowole ward are engaged in local revolving fund arrangements popularly known as *Upatu* in Tanzania. In transportation infrastructure, Igowole is linked with all weather roads (gravel road) connecting with Mbeya-Iringa Highway. There are daily privately owned passenger buses operating between Igowole and Iringa Municipality and several small cars (taxis) which operate between Igowole and Njololo or Mafinga situated along the Mbeya-Iringa Highway.

The main economic activity practiced in Igowole and its rural hinterland is farming. Crops produced are maize since 1940s; pyrethrum since 1960s; timber since 1970s and tea since 1980s. Other agricultural activities practiced include livestock keeping, especially poultry and pigs. Fishing is also practiced to some extent. Therefore, based on the findings, the main activities in the rural hinterland villages (Kasanga and Udumuka) are mainly maize farming (61%); craftsman and/or artist (7.5%), casual labour in other farms (5.4%) and tea production (5%). Other economic activities include employment in tea industry (2.5%) and producing other crops (2.2%).

However, historically, tea cultivation has been dominated by two tea estates with minor contribution from smallholders: Unilever Tea Tanzania (the country's largest tea estate) and Mufindi Tea Company (MTC). The demand for tea continued to increase in the 1980 and 1990s and the area

under tea was progressively increased by both estates which created additional labour demand. This could not be met by the indigenous people in the area. In the 1980s and early 1990s, the tea estates established 'labour collection points' in Makete and Njombe and provided transport for people from these areas to the estates. Due to the (historical) remoteness of the two tea estates from large centres such as Mafinga or Iringa, the estates provided residential accommodation for their workers (tea pickers and tea factory workers) at the estates. Since then, many of these workers have settled permanently in Igowole or villages in its rural hinterland.

In 2006, the tea picking process was mechanized in order to cope with the increasing labour demand in the tea estates. However, the tea estates and smallholder tea cultivation continue to play a significant role in contemporary agricultural development and hence in the rural economy in the area. The tea estates and a newly-established leaf factory (Kisiga Tea Company) have expanded their operations by involving smallholders from the surrounding areas to grow and sell their green leaf to the factory/estate through outgrower's scheme/contract farming. Smallholders are supported through credit-based input systems organised by the tea estates. Inputs including fertilisers, pesticides, herbicides and to some extent tea seedlings are provided by the processing factories on credit based on an assessment of the size of the fields. These contractual arrangements are often combined with some form of extension services.

The emergence of Igowole as a business centre started in late 1990s and the number of businesses (shops and small enterprises) has increased substantially in recent years. Of the 31 businesses proprietors interviewed in Igowole centre, the majority have been established within the last seven years. Currently, there are more than 50 businesses

operating from fixed premises (owned or rented) located in the centre along with several smaller shops run from dwellings mainly selling fresh vegetables. A survey of 31 business operations was conducted in Igowole centre. It shows that the majority of the businesses have been established within the last seven years. The centre is dominated by traditional general stores basically selling groceries, but more specialized shops have increasingly been established dealing with hardware, furniture, stationary services and agricultural inputs. Other businesses available include car repair workshops and timber selling business. Service providers are also available in Igowole and they include food suppliers, hairdressers, communication (mobile services), taxis, hospitality such as hotels and guest houses and milling machines. In addition, a growing number of smaller manufacturing enterprises have also been established including maize milling, small sawmills and carpentry workshops.³ More than half of the sampled businesses were owned by migrants and a great majority of these businessmen/women migrated to Igowole with the sole purpose of engaging in non-farm activities.

Rural-urban migration, urban livelihoods and rural linkages in relation to Igowole EUC

Analysis of survey data shows that about 34% of the migrants and 14% of the natives at Igowole EUC were engaged in crop sales while 10% of the migrants and 15% of the natives were employed in the timber industry. About

³ Since the mid-2000s, the growth in demand for soft wood timber and development of the timber industry in the area have created job opportunities for transporters, 'lumber' workers and value added processing facilities in the centre.

12% of the migrants and 8% of the natives were casual labourers, especially in tea estates whereas 9% of the migrants and 5% of the natives were engaged in tea production and the rest (35% migrants and 58% natives) were involved in other businesses including production of other crops, livestock keeping and formal employment in government schools and in the health sector. Moreover, many of these people were undertaking some of their activities at the EUC as well as in nearby villages. According to the survey data, about 5% of migrants and 28% of natives were engaged in maize production in nearby villages while 34% of the migrants and 14% of the natives were involved in selling various crops in these villages. Survey data also show that 10% of the migrants and 14% of the natives were engaged in timber business; 9% migrants and 5% natives were tea growers; 11% migrants and 8% natives were casual labourers and about 5% migrants and 4% natives were employed in the formal sector.

Rural livelihoods and economic status

Igowole population is comprised of *Wahle* and *Wakinga*, some of whom have migrated from Njombe. Other tribes such as *Wachagga* have also settled in some parts of the Igowole division. There are people who have migrated from the rural areas such as Kasanga and Udumuka villages and settled in Igowole Township. The reasons for migration include establishment of business in Igowole such as timber trading. Others have migrated to Igowole looking for employment. Others have migrated simply to have access to energy (electricity) and some have migrated just for entertainment, the majority of which are youths. However, when assessing migration status of rural Kasanga and Udumuka residents, the findings show that 51% of the villagers have come from outside Igowole Division, but

within Mufindi district. The findings also show that 33% are the original inhabitants of the village and 15% have migrated from outside Mufindi district. Only 1% comes from outside the village, but within Igowole Division.

The economic status of people living in the rural areas varies based on whether they are migrants or not. For example, in Kasanga and Udumuka villages, economic status was assessed based on participatory poverty indicators developed by the villagers. These indicators included household food adequacy; quality of shelter/house; household monthly income; education level of the children and access to health services. Therefore, based on these indicators, poor households were those families which do not get three meals per day; have grass thatched houses; are not able to purchase inputs and therefore their agricultural productivity is low, have low incomes and cannot access health services. For the average households, three meals per day are affordable; the house is roofed with iron sheets, agricultural production is average but no surplus production. Their income is average and cannot cultivate large farms but can access health services.

When assessing the ownership of houses, findings show that 91% of the villagers in Kasanga and Udumuka were living in their own houses. In terms of extent of poverty in Kasanga and Udumuka villages, the findings show that 45% of the villagers were relatively poor, 41% were relatively better off and only 15% were moderately poor. The findings show that 7% of those who have economic activity in Igowole were relatively better off and only 3% were relatively poor. For the moderately poor, only 2% were having economic activity in Igowole. Focus Group Discussions (FGD) with village leaders and other important people in the villages showed that among the different income levels, the low income

bracket is composed of both migrants and non-migrants while the majority of middle income earners are non-migrants and the majority of the high incomes are the migrants.

It was also found that migrants on average earned about 69,631 Tshs from activities performed at the EUC and 216,100 Tshs from activities performed in hinterland villages while the original inhabitants earned only 16,473 Tshs and 119,550 Tshs from the EUC and hinterland, respectively. Some of the migrants also provided employments to the original inhabitants. Thus, according to the poverty assessment used in the area, the low income bracket is composed of both natives and migrants while the majority of middle income earners are the natives. The majority of the high incomes are the migrants.

For the case of access to resources such as land and financial services in the rural areas, the situation has changed over time. For example the price of one acre of land was between 15,000-20,000 Tshs in year 2000 while in 2011, the price of the same acre increased up to 300,000/- Tshs in Kasanga. In Udumuka village the price increased from 15,000-20,000 Tshs in 2000s to 100,000 Tshs in 2011. Respondents could not access financial services in the 2000s. However in 2011, people started to access credit services in the villages. The income brackets with better access to financial services were the middle and higher income households. This was because they could meet collateral requirements as they had more valuable assets compared to low income people. It was also reported that financial institutions did not discriminate between the inhabitants and the migrants.

The findings also show that other villagers were better off than others due to their high ability to invest in tree farms and therefore could sell trees and timber. Overall livelihood

situation was better off than it was ten years before. People were of the opinion that there is a lot of improvement in reduction of poverty. In addition, access to energy (electricity) has brought a lot of changes in the village and the re-introduction of input subsidy by the government in the 2008 has also led to improvement in crop production. For the case of Udumuka, the current livelihood situation had improved as compared to ten years ago and the poverty levels have declined. Introduction of new technology such as livestock keeping and oxenisation has improved crop production and livelihood. People started building good houses and their incomes have improved.

Investment and saving practices in Igowole and the rural hinterland

It has been established, the number of businesses has increased substantially since mid-2000 and dominated by traditional general stores, but more specialized shops/businesses are increasingly being established. Most of the businesses in the survey are primarily operated by the owner or her/his family, though around 40% of the businesses employ at most a few people (typically one to four employees) in addition to family labour. Around 40% of the business owners have had some sort of businesses before the present one, either in Igowole centre or in other parts of Tanzania. With regard to initial investment, it was typically based on the owner's own resources/savings or on money borrowed from or invested by other family members. In many cases, the owner of the business has saved capital by working at the tea estates (wage labour). In addition, savings from crop and livestock sales provided additional investment capital for most of the business owners. Working capital tends to be obtained more frequently through formal loans (notably SACCOS) relatively to investment capital.

In terms of re-investment practices, a large share of the surplus was devoted to the reproduction of the household, but 70% of the business owners indicated that some of the surplus was reinvested. Most frequently, business owners invest in property (new houses or improving existing house facilities) followed by investment in land mainly for cultivation of tea and/or timber and means of transport. In a few cases, business owners reported re-investment in other businesses (5%) or the shop (5%).

The findings from financial services survey (Msese, 2012) show that the initial investment capital for most of the businesses came from the owners' own resources through either working in a tea field, or in tea factory, or through wage earnings or through crops or livestock sales. However, for the case of working capital, the sources are either from the owner or from formal loans obtained from Mufindi Community Bank (MuCoBa) or through SACCOS. For the case of access to formal credit for in Igowole based on whether the beneficiaries are migrants or non-migrants, the findings show that 65% of migrants and 57% of non-migrants are obtaining credit from CHAKUPA SACCOS. In addition, 35% of migrants and 36% of non-migrants have accessed loans from MuCoBa. Only 7% of non-migrants have accessed loans from FINCA while migrants do not access to FINCA loans. For the case of rural hinterland the findings show that 77% of the migrants and 70% of non-migrants are obtaining credit from CHAKUPA SACCOS while 23% of migrants and 30% of non-migrants have accessed loans from MuCoBa. None of the people in the rural hinterland access credit from FINCA.

Therefore, the findings show that there were few formal financial institutions in Igowole which necessitated some of the people to rely on informal savings and credit facilities as

source of capital. That is, about 55% of non-migrants in Igowole had access to informal microfinance through group lending while 62% of migrant into Igowole EUC had no access to informal microfinance due lack of social networks. On the other hand, 33% of migrant in the immediate hinterland had no access to informal microfinance due to short grace periods and high interest rates.

Summary

Igowole and the rural hinterland are linked through intermarriages, business relationships and farming activities. The indicators used in the poverty assessment in the rural hinterland include household food adequacy, quality of shelter, household monthly income, educational level of children and access to health services. The findings show that 45% of people in the rural hinterland are relatively poor while 40% are relatively better off. The moderately poor are only 15%. The overview also show that investments have increased since 2000s especially investment in the trading activities in Igowole centre and farming (rural hinterland). The business activities have increased significantly and more specialized stores have been established. These investments have been made possible from the capital raised through working in tea estates, tea processing factories or to some extent from formal loans obtained from MuCoBa or SACCOS. However, the initial investments were typically based on the owner's savings, while working capital tends to be obtained more frequently through formal loans. As for reinvestments practices, the findings show that a large share of the surplus was channelled to household reproductive activities. In case of re-investment practices, it happened most frequently for the acquisition of property and land for agriculture and rarely in diversifying their business operations.

Kibaigwa Emerging Urban Centre

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Characterization of Kibaigwa EUC and Maize Value Chain

The name Kibaigwa originates from first the person who settled in the area by the name of Lembaigwa who was of the *Wamasai* origin. In 1995 the Kibaigwa market was established and this is believed to be the beginning of the growth of Kibaigwa Emerging Urban Centre (EUC). Before the establishment of the maize market at Kibaigwa, Mtanana and Pandambili villages were the important maize trading centre for farmers and traders. Farmers from Zoisa ward, Njoge ward and Kiteto district (Arusha) travelled to these villages to sell maize. Traders came from Dodoma and Dar-Es-Salaam. With time and increased number of people (farmers and traders) these trading centres turned out to be insecure due to criminal activities including theft and robbery. Realizing this problem, the then chairperson of Kibaigwa village advised young people to establish a group to provide security for maize traders in the village. A group of 25 male youths started a group known as '*Kikundi cha umoja wa wabeba mizigo Kibaigwa*'. The group was responsible for security, loading and unloading of maize on lorries. Kibaigwa village became a secure place and therefore more traders and farmers decided to trade at Kibaigwa.

Kibaigwa village started to grow in terms of businesses, population and economy in general. The group currently known as Kibaigwa Cargo Porters Cooperative Society has over time expanded in terms of membership and diversified its activities to include a savings and credit facility. During this time maize trade was done along the road but due to